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# ASB meeting minutes, 1999 September 22-24; Auditing Standards Board approved highlights, September 22-24, 1999

American Institute of Certified Public Accountants. Auditing Standards Board

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## **AUDITING STANDARDS BOARD**

**Meeting:** Auditing Standards Board (ASB)

**Date:** September 22-24, 1999

**Location:** Westward Look Resort  
245 East Ina Road  
Tucson, AZ

### **Meeting**

**Attendance:** Deborah D. Lambert, Chair  
James S. Gerson, Vice Chair  
Andrew J. Capelli  
Robert F. Dacey  
Richard Dieter  
Robert Dohrer  
Sally Hoffman  
Stephen D. Holton  
J. Michael Inzina  
Charles E. Landes  
Keith O. Newton  
Alan Rosenthal  
Robert C. Steiner  
George H. Tucker  
Ray Whittington

### Other Participants

Thomas Ray, Director, Audit and Attest Standards  
Kim M. Gibson, Technical Manager, Audit and Attest Standards  
Jane M. Mancino, Technical Manager, Audit and Attest Standards  
Judith Sherinsky, Technical Manager, Audit and Attest Standards

### Observers

Scott Bayless  
Joe Bentz  
Gabriel de la Rosa  
Dave Frazier  
Deborah Koebele  
Rich Miller  
Beth Schneider  
Jeff Thomson

Lynn Turner

## **I. CHAIR'S AND VICE CHAIR'S REPORT**

Deborah D. Lambert, Chair, and James S. Gerson, Vice Chair, reported on the Audit Issues Task Force (AITF) meetings on August 4, 1999 in New York, August 24, 1999 in Norwalk, CT and August 25, 1999 in New York. A summary of the meetings are attached.

## **II. DIRECTOR'S REPORT**

Thomas Ray, AICPA Director, Audit and Attest Standards, reported on the following matters to the Auditing Standards Board:

1. The Office of the Chief Accountant of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 99, Materiality. Andy Capelli is leading an ASB task force to consider its implications—whether amendment or interpretation of the auditing standards are required and whether additional guidance should be developed. The task force held its first meeting in connection with the September 1999 ASB meeting.
2. In July 1999 the AICPA Board of Directors voted to restructure committee activities. The work of about fifty standing committees will now be performed using a task force structure under a larger advisory board. Affected committees included tax committees, industry committees and the Computer Auditing Subcommittee. Deborah Lambert, ASB Chair, and Chuck Landes have agreed to participate in a task force with several members of the Accounting Standards Executive Committee and the former industry committees. This task force will consider an outline of a structure developed by AICPA staff (in consultation with various AICPA members) to accomplish the necessary functions formerly performed by the industry committees.
3. In early October 1999 the Panel on Audit Effectiveness is holding a public hearing in New York. Various groups and individuals have been invited to address the Panel. A list of invitees is not available; however, we are aware that the following have been invited—

- AICPA
- Spokespeople for the large accounting firms
- SECPS Executive Committee
- Public Oversight Board

Ray Whittington, ASB member, noted that the American Accounting Association also was invited to address the Panel.

4. The Panel on Audit Effectiveness also is seeking input through the use of a questionnaire. We are aware that it was sent to a lengthy list of individuals which appears to include the following—

- ASB members
- Certain AICPA staff
- International Federation of Accountants' International Auditing Practices Committee members
- SECPS Executive Committee members

The AICPA staff is preparing a response. The Audit Issues Task Force held a brief conference call to discuss this matter and concluded that there was insufficient time to prepare an official ASB response. The deadline for submitting responses is September 27.

5. Susan Jones recently joined the staff of the Audit and Attest Standards team at the AICPA as technical manager. Susan returned to the AICPA after a two-year secondment to the International Federation of Accountants where she worked with the International Auditing Practices Committee.

### III. AGENDA ITEMS PRESENTED AT MEETING

#### **Attestation Recodification II (File Ref. No. 2156):**

Chuck Landes, chair of the Attestation Recodification II Task Force (task force), led the Board's discussion of the proposed revisions to AT 100, *Attestation Standards*. The Board:

- Agreed not to make obtaining a management representation letter a mandatory procedure in an examination or a review attest engagement involving two parties (See Summary of Board Preference Vote).
- Added a footnote to paragraph 55 explaining that when the responsible party is the practitioner's client, it is presumed that the client will be capable of providing the practitioner with a written assertion regarding the subject matter. Failure to provide the a written assertion in this circumstance casts doubt about the conformity of the subject matter with the criteria. Such doubt is conveyed to users through a scope limitation in the practitioner's report.
- Noted that when the criteria have been agreed-upon, the CPA may want to restrict the report. However, there are many attest engagements in which agreed-upon criteria are used and general use reports are issued.
- Directed the task force to revise the example reports so that the subject matter of all the reports pertains to whether employee evaluations had been prepared in accordance with company policy.

The task force will bring a revised draft back to the Board at its October meeting.

**Summary of Board Preference Vote**  
**Attestation Recodification II (File Ref. No. 2156)**

	<b><u>For</u></b>	<b><u>Against</u></b>	<b><u>Abstain</u></b>	<b><u>Absent</u></b>
Should the Attestation Standards require the Practitioner to obtain a representation letter from management in all two party examination and review attest engagements?	5	8	1	1

**Technology Issues Update**

George Tucker, Chair, Technology Issues Task Force (task force), reported on the status of the project. The task force was formed in May 1999 to consider the manner in which auditing standards taken as a whole reflect the use and impact of information technology and whether changes should be made to the standards.

The task force has met three times and considered this project from several different perspectives, including practitioners in large and small firms, auditors of companies highly dependent on information technology and auditors of companies that are less IT dependent, and auditors who are IT specialists and those who are not IT-specialists but are supervising or using the work of IT-specialists. The task force also has considered several documents related to this project, including the following:

- The Statements on Auditing Standards, particularly those dealing with audit planning, audit risk and materiality, internal control, fraud, and evidential matter
- The report issued by the Computer Auditing Subcommittee in December 1998
- Government Auditing Standards Amendment No. 1, *Documentation Requirements When Assessing Control Risk at Maximum for Controls Significantly Dependent on Computerized Information Systems*

At this point, the task force is focusing its efforts on exploring the characteristics of IT systems and related risks and whether AU section 319, *Consideration of Internal Control in a Financial Statement Audit*, should be amended to better reflect information technology.

**Omnibus SAS (File Ref. No. 3509):**

The ASB discussed comments on the exposure draft of the proposed Statement on Auditing Standards, *Omnibus Statement on Auditing Standards XI 1999 (Audit Adjustments, Reporting on Consistency, and Service Organizations)*. As indicated by its title, the proposed SAS contains the following three sections:

**Audit Adjustments**

This section of the proposed SAS establishes audit requirements that would encourage management to record audit adjustments proposed by the auditor and clarifies management's

responsibility for the disposition of financial statement misstatements brought to its attention. Richard Dieter, Chair of the Omnibus SAS Task Force, led the Board in a discussion of the issues raised in comment letters on the proposed SAS. The ASB indicated that there is a need to:

- Clarify whether the SAS covers misstatements identified by management as well as those identified by the auditor.
- Clarify which periods are covered by the SAS. For example, if comparative financial statements are presented, does the SAS apply to all periods presented or only the latest period presented? Also, if the auditor discovers a misstatement in last year's financial statements that would be recorded as a prior period adjustment in the current year's financial statements, should that misstatement be included in the summary of uncorrected misstatements and communicated to the audit committee?
- Revise footnote 6 of the proposed SAS, which describes the kinds of items that need not be included in the summary of uncorrected misstatements, to focus on the kinds of items that should be included in the summary.

The ASB also noted that there is a need to consider the effect of SEC Staff Accounting Bulletin No. 99, *Materiality*, on the proposed SAS. Representatives of the ASB will consult with the SEC staff on this matter. The ASB did not ballot this section of the exposure draft and will consider it again at the October 1999 ASB meeting.

### **Reporting on Consistency**

Steven D. Holton, Chair of the Reporting on Consistency Task Force, led the Board in a discussion of amendments to AU Section 420, *Consistency of Application of Generally Accepted Accounting Principles*, that would clarify the circumstances for which a change in the reporting entity requires a consistency explanatory paragraph in the auditor's report. The ASB proposed a minor editorial change to the document, and voted in favor of balloting this section of the exposure draft for issuance as a final SAS.

### **Service Organizations**

Steven D. Holton, Chair of the Financial Instruments Task Force, led the Board in a discussion of comments on the proposed amendments to SAS No. 70, *Reports on the Processing of Transactions by Service Organizations*, which are designed to help auditors determine the kind of information they need about a service organization when they are auditing the financial statements of an entity that uses a service organization to process transactions. The ASB voted to ballot this section of the exposure draft for issuance as a final SAS with no changes.

### **Financial Instruments (File Ref. No. 2405):**

Stephen D. Holton, Chair of the Financial Instruments Task Force, presented an update to the ASB on the progress of the Financial Instruments Task Force. Mr. Holton indicated thatX

- The deadline for comments on the exposure draft of the proposed Statement on Auditing Standards, *Auditing Financial Instruments*, has been extended to November 10, 1999, which extends the comment period by two months. During that period, additional excerpts from the Practice Aid that will help auditors implement the proposed SAS will be placed on the AICPA Web site.
- The Practice Aid currently consists of six chapters containing an overview of various types of financial instruments, as well as the accounting standards and auditing considerations for those financial instruments. Additional chapters containing case studies will be added to the Practice Aid.
- The task force expects the ASB to ballot the exposure draft for issuance as a final SAS at the February 2000 ASB meeting.

**The Effectiveness of Audit Committees Task Force (File Ref. No. 2280):**

Mr. James Gerson discussed with the ASB a proposed exposure draft on Statement on Auditing Standards, titled *Amendments to Statements on Auditing Standard No. 61, Communication with Audit Committees and Statement on Auditing Standards No. 71, Interim Financial Information*. This exposure draft is in response to the Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (BRC).

The proposed SAS will among other things:

- Require that the auditor discuss certain information relating to the auditor's judgments about the quality, not just the acceptability, of the company's accounting principles with the audit committees of SEC clients.
- Require the discussion to include such matters as the consistency of application of the entity's accounting policies and the clarity, consistency, and completeness of the entity's accounting information contained in the financial statements and related disclosures. The discussion is also to include certain items that have a significant impact on the representational faithfulness, verifiability, neutrality, and consistency of the accounting information included in the financial statements.
- Prohibit auditors from communicating in writing the auditor's judgments.
- Clarify that the accountant should communicate to the audit committee or be satisfied, through discussions with the audit committee, that matters described in SAS No. 61 have been communicated to the audit committee by the management when they have been identified in the conduct of interim financial reporting.

- Require the accountant of an SEC client to attempt to discuss with the audit committee the matters described in SAS No. 61 prior to the filing of the Form 10-Q or, if applicable, prior to a public announcement of interim information.

Richard Miller, AICPA General Council, advised that the ASB could not prohibit auditors from communicating in writing information that has been communicated orally, and suggested that the requirement prohibiting auditors from communicating their judgments be removed. The ASB decided to leave this requirement in the exposure draft and obtain more information regarding this issue during the exposure period.

After a complete discussion of the proposed SAS, the ASB unanimously voted to ballot the document for exposure. (See attached preference vote).

**Summary of Board Preference Vote**  
**The Effectiveness of Audit Committees (File Ref. No. 2280)**

	Yes	No	Abstain	Absent
Should the proposed Statement on Auditing Standards, <i>Amendments to Statements on Auditing Standard No. 61, Communication with Audit Committees and Statement on Auditing Standards No. 71, Interim Financial Information</i> , be exposed for comment?	14			1

**Federal GAAP Hierarchy Task Force (File Ref. No. 2615):**

J. Mike Inzina lead the discussion regarding the Federal GAAP Hierarchy Task Force's (task force) revision of SAS No. 69, *The Meaning of Presents Fairly in Conformity with Generally Accepted Accounting Principle in the Independent Auditor's Report*.

Before the ASB discussed the document prepared by the task force, Gary Previts, Chair of the AICPA Board Rule 203 Task Force updated the ASB via conference call on the recent Board of Director's discussion and the upcoming Council presentation regarding designating the Federal Accounting Standards Advisory Board (FASAB) as a standard-setter. Mr. Previts explained that the AICPA's Board of Directors approved the proposal and it is anticipated that the AICPA council will do the same. The proposal as written will grandfather FASAB statements issued prior to the Council's into category (a) GAAP.

After Mr. Previts' update, the ASB reviewed the proposed revisions to SAS No. 69. The revisions made to SAS No. 69 are in anticipation of AICPA council's approval of the above FASAB proposal. The proposed revision defines categories (a) through (d) of a federal GAAP hierarchy, and consider any other amendments to existing auditing standards.



The proposed revision also defines a federal governmental entity as described in FASAB Concepts Statements No. 2, *Entity and Display*.

The ASB instructed the task force to share the proposed revisions to various interested parties such as Accounting Standards Executive Committee, Governmental Accounting Standards Board, Financial Accounting Standards Board and the United States General Accounting Office.

The task force will present an exposure draft of the revisions to SAS No. 69 at the December 1999 ASB meeting.

## **ATTACHMENT TO HIGHLIGHTS OF ASB SEPTEMBER 22-24 1999 MEETING**

### **Highlights of AITF meeting held on August 4, 1999**

The Audit Issues Task Force (AITF) met with representatives of the Financial Executives Institute (FEI) on August 4, 1999 in New York. The following matters were discussed:

- Activities of the Panel on Audit Effectiveness and the status of various constituents' responses to recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees
- ASB Exposure Drafts, *Audit Adjustments*, *Reporting on Consistency*, and *Service Organizations (Omnibus Statement on Auditing Standards—1999)*, and *Auditing Financial Instruments*
- Academic research projects on the effectiveness of SAS No. 82, *Consideration of Fraud in a Financial Statement Audit*, and a discussion paper developed by the International Federation of Accountants titled "The Accountancy Profession and the Fight Against Corruption"
- ASB plans to host a "brainstorming" session on Continuous Auditing this fall
- MD&A update

### **Highlights of AITF meeting held on August 24, 1999**

The AITF met with members and staff of the Governmental Accounting Standards Board (GASB) on August 24, 1999 in Norwalk, CT. The following matters were discussed:

***Financial Capability Working Group.*** A working group, comprised of representatives from the ASB, the AICPA's Accounting Standards Executive Committee, the Financial Accounting Standards Board, and the AICPA's Technical Issues Committee, was formed to explore whether accounting and auditing standards-setters should develop additional guidance on financial capability to improve the quality and usefulness of information to financial statement users.

Deborah D. Lambert, ASB Chair and a member of the working group, reported on a roundtable that the group recently hosted for various constituencies. She indicated that the working group is in the process of evaluating the input received at the roundtable.

***Financial Condition Indicators.*** James R. Fountain, the GASB's Assistant Director of Research, discussed some of the financial condition indicators that were identified in a research report, *The Relationships between Financial Reporting and the Measurement of Financial Condition*. The report defines financial condition as the probability that a government will meet both its financial obligations and its service obligations, both currently and in the future.

***Materiality Issues in Governmental Reporting.*** Tom Allen, GASB Chair, and Andrew J. Blossom, member, Government Accounting and Auditing Committee, led a discussion about materiality issues in governmental accounting. A. Blossom pointed out that there is a divergence in practice regarding the application of materiality considerations to audits of governments. Some auditors make both planning and reporting materiality determinations at the fund level, while others consider materiality for planning purposes at the fund level but evaluate materiality for reporting purposes at the entity level. The AICPA expects to develop updated guidance with respect to audit materiality to be included in revisions to the AICPA Audit and Accounting Guide, *State and Local Governmental Units*. The Guide is undergoing major revisions as a result of the new GASB accounting model. Several GASB members expressed concern that in focusing on the financial statements taken as a whole, some auditors might take too "minimalist" an approach to auditing the major funds.

***Communication Methods/Vehicles for Governmental Reporting.*** Penelope Wardlow, GASB Senior Research Manager, led a discussion about the GASB project to consider the appropriate communication methods for various types of information, such as trend information, or service efforts and accomplishments, that users of governmental financial statements need to make decisions. Among other matters, the GASB will be considering refinement of the criteria for the use of required supplementary information (RSI), and the potential additional scope of GASB standards beyond the basic financial statements. GASB members expressed interest in the attestation standards and how those standards might relate to the achievement of some of their possible future projects. AICPA staff agreed to provide GASB staff with examples of attestation guidance recently prepared to meet the needs of specific types of engagements.

The AITF met with members and staff of the Financial Accounting Standards Board (FASB) on August 24, 1999 in Norwalk, CT. The following matters were discussed:

***Financial Capability Working Group Update.*** A working group, comprised of representatives from the ASB, the AICPA's Accounting Standards Executive Committee, the Financial Accounting Standards Board, and the AICPA's Technical Issues Committee, was formed to explore whether accounting and auditing standards-setters should develop additional guidance on financial capability to improve the quality and usefulness of information to financial statement users. Deborah D. Lambert, ASB Chair and a member of the working group, reported on a

roundtable that the group recently hosted for various constituencies. She indicated that the working group is in the process of evaluating the input received at the roundtable.

***What Does “Conservatism” or “Aggressiveness” in Accounting Mean?*** James S. Gerson, ASB Vice Chair, led this discussion about Recommendation 8 of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees. The recommendation is that generally accepted auditing standards should require auditors to discuss with audit committees the auditor’s judgments about the “degree of aggressiveness or conservatism of the company’s accounting principles and underlying estimates and other significant decisions made by management.” The participants generally agreed that the terms “aggressive” and “conservative” are not clear and are not subject to consistent interpretation.

***FASB Expectations with regard to Auditing Management Intent.*** Andrew J. Capelli, AITF member, led a discussion about the increasing emphasis in the accounting literature, particularly in the financial instruments standards, on management’s intent. FASB members stated that the requirement for management to document intent, as well as representations in the management letter, would provide audit evidence. FASB members felt that measuring effectiveness posed more difficult audit issues than auditing intent.

***Business Reporting Research Project Update.*** E. Raymond Simpson, Senior Project manager of the FASB, spoke about the status of this project. A steering committee is considering the findings of seven working groups that are doing research on various business reporting matters, including the redundancy of GAAP and SEC disclosures, and the types of information, both financial and nonfinancial, that entities are voluntarily disclosing on their Web sites. The steering committee will publish its report and recommendations in the fall of 2000.

***Financial Instruments Update.*** Stephen D. Holton, AITF member, provided an update on the Financial Instruments task force that he chairs. A proposed Statement on Auditing Standards (SAS), *Auditing Financial Instruments*, has been exposed for comment, and information from a companion Practice Aid also has been posted on the AICPA Web site to help practitioners determine how the proposed SAS would be applied in practice in various scenarios. Robert C. Wilkins, Senior Project Manager, gave an update on the FASB’s Derivatives Implementation Group (DIGs) which meets every other month to consider implementation issues of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

***Audit Issues Related to Proposed Statement on Consolidated Financial Statements.*** A. Capelli and S. Holton summarized auditability concerns that were the subject of the comment letter from the Illinois CPA Society to the FASB on the proposed Statement of Financial Accounting Standard, *Consolidated Financial Statements: Purpose and Policy*. The greatest concern related to the subjectivity in determining control absent the existence of clear agreements.

## **Highlights of AITF meeting held on August 25, 1999**

The AITF met on August 25, 1999 in New York. The following are highlights of that meeting:

### ***Audit Committee Recommendations Update***

James S. Gerson and Robert C. Steiner, AITF members, presented the latest draft of the proposed amendments to AU section 380, *Communication with Audit Committees*, and AU section 722, *Interim Financial Information*. They also provided an update on various other initiatives being drafted in response to recommendations made by the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees. The National Association of Securities Dealers (NASD) approved its proposals on July 1 and has submitted them to the Securities and Exchange Commission (SEC). The New York Stock Exchange (NYSE) will vote on its proposals on September 3. The SEC is expected to publish a proposed rule for comment around the end of September in a document that includes the NASD and NYSE proposals.

Deborah D. Lambert, Chair, Auditing Standards Board, J. Gerson, and Thomas Ray, Director, Audit and Attest Standards, will meet with SEC representatives on September 8. They will discuss the proposed audit amendments that are expected to be balloted for exposure at the September 22-24 ASB meeting; the direction that the SEC rule is likely to take; and other matters such as coordination of the exposure period and effective date of the ASB and SEC documents.

AITF members discussed the proposed amendments and suggested that the draft be circulated to the ASB for preliminary comments. Also, an ad hoc group will arrange a conference call in early September to discuss the proposed amendments, including possible alternatives to the terminology “aggressiveness or conservatism of the entity’s accounting principles.”

### ***NY Insurance Companies’ Reporting on Internal Control over Derivatives***

J. Gerson presented an issue regarding a new requirement by the New York State Insurance Department relating to internal controls over derivative transactions. New York recently adopted a new law allowing insurance companies greater flexibility in investing in derivatives. In exchange, the Insurance Department is requiring licensed insurers (both foreign and domiciled companies) to provide “a statement describing the assessment by the independent certified public accountant of the internal controls relative to derivative transactions.”

The Insurance Department has issued “emergency regulations” (which makes them subject to change) to implement the law. Although the regulations state that “the assessment need not be set forth in a separate report,” AITF members agreed that the required report goes beyond what is comprehended in SAS No. 60, *Communication of Internal Control Related Matters Noted in an Audit*, and only can be met by an attest examination of internal control over derivative

transactions. The AITF also agreed that members of the AICPA Insurance Companies Committee should follow up on this matter with representatives of the Insurance Department.

### ***SAB on Materiality***

D. Lambert led a discussion about SEC Staff Accounting Bulletin (SAB) No. 99, *Materiality*, issued on August 12. T. Ray reported that a working group of AICPA staff, ASB members, and preparers will consider whether implementation guidance needs to be developed. He stated that the 1999/2000 series of Audit Risk Alerts likely will include coverage of the SAB.

AITF members recommended that an ASB task force be established to consider the need for amendments to SAS No. 47, *Audit Risk and Materiality in Conducting an Audit*, in light of the SAB and of issues raised by the Big 5 Task Force on Materiality. The task force will include members from another AICPA task force that is considering materiality issues with regard to the new governmental reporting model.

AITF members also agreed that the SAB does not affect the guidance in the Exposure Draft of the proposed *Omnibus Statement on Auditing Standards—1999: Audit Adjustments, Reporting on Consistency, and Service Organizations*.

### ***Y2K Update***

George Tucker, AITF member, presented a draft interpretation of SAS No. 70, *Reports on the Processing of Transactions by Service Organizations*, proposing a service auditor's responsibility to report an entity's significant Y2K problem that affects processing subsequent to the period covered by the service auditor's examination but prior to the date of the service auditor's report. Participants discussed the proposed interpretation and concluded that, since SAS No. 70 has no reporting responsibility for subsequent events, imposing that responsibility on the auditor would require amendment, rather than interpretation, of the standard. AITF members recommended that the interpretation advise the service auditor that a Y2K processing problem that arises after the reporting period may be disclosed by the reporting entity in the "Other Information Provided by the Service Organization" section of the document. In the absence of such disclosure, the auditor should consider including it in the section "Information Provided by the Independent Service Auditor." In either case, the service auditor also might consider an emphasis of a matter paragraph in his or her report.

AITF members also discussed possible Y2K guidance for the *1999/2000 Audit Risk Alert*. Among the possible issues to be covered are changes to normal business practices such as stockpiling, how early closing may affect analytical procedures, and how audit planning may be affected when a client has replaced every system.

### ***ASB Project Timeline***

The agenda for the September 22-24 ASB meeting was discussed. An Exposure Draft of proposed amendments to AU section 380, *Communication with Audit Committees*, and AU section 722, *Interim Financial Information*, is expected to be voted out at the meeting, as well as a final *Omnibus Statement on Auditing Standards—1999* dealing with audit adjustments, consistency, and service organizations. Other topics to be discussed include proposed amendments to the attestation standards, practice guidance on financial instruments, and the status of the proposed recognition of the Federal Accounting Standards Advisory Board as promulgator of GAAP for the Federal government.

Stephen D. Holton, Chair, Financial Instruments Task Force, reported that the transmittal letter accompanying the Exposure Draft (ED), *Auditing Financial Instruments*, said that information would be provided through the AICPA's Web site to help readers of the ED consider how the proposed SAS would be applied in practice. While the letter did not say what information would be provided, he had envisioned that the information available during much of the comment period would be more extensive than the information that is presently on the Web site. He felt that if more material were posted, readers of the ED would be better able to consider how the proposed SAS would be applied in practice and to develop comments on the ED. AITF members agreed that additional material should be made available, including the cases on interest-rate swaps and investments of retirement plans, and the comment period should be extended through November 10.

Comments on the Exposure Draft will be discussed at the December ASB meeting with the objective of voting out the final SAS at the February 2000 meeting.

### ***FASB 125/FDIC Update***

Tracey C. Barber, Chair, FASB 125 Audit Issues Task Force, reported that the task force probably will be reconvening soon, since the FDIC is expected to issue revised proposed guidance in the form of a regulation, rather than a Statement of Policy, early in September. She also noted that the FASB Exposure Draft, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 125*, has removed any special exemption for accounting treatment of banks. The comment deadline for the exposure draft is September 27, 1999.

### ***International Risk Model Project Update***

T. Ray reported that a discussion paper is being developed that describes the audit firms' adoption of a business risk approach to assessing audit risk. The joint Audit Methodologies working group planned to obtain sponsorship of the U.S., UK and Canadian standard-setters to distribute the paper for comment to their respective constituencies who received exposure drafts. AITF members suggested instead that the paper be discussed by the ASB (and by the UK and CICA auditing boards), and then presented for comment to the International Audit Practices Committee and to other major national standard-setting bodies.